

**BEFORE THE
DEPARTMENT OF TRANSPORTATION MAY 17 P 2:02
WASHINGTON, D.C.**

Essential Air Service at)

ADAK,)
ATKA, and)
NIKOLSKI, ALASKA)

under 49 U.S.C. § 41731 et. seq.)

Docket OST-2000-8556 - 85
OST-1995-363 - 28

**ESSENTIAL AIR SERVICE PROPOSALS
OF PENINSULA AIRWAYS, INC.**

Communications with respect to this document should be addressed to:

Orin Seybert
President
PENINSULA AIRWAYS, INC.
6100 Boeing Avenue
Anchorage, Alaska 99502
(907) 243-2485

Robert E. Cohn
Alexander Van der Bellen
SHAW PITTMAN LLP
2300 N Street, N.W.
Washington, D.C. 20037
(202) 663-8060

Counsel for
PENINSULA AIRWAYS, INC.

May 14, 2004

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**ESSENTIAL AIR SERVICE PROPOSALS
OF PENINSULA AIRWAYS, INC.**

Pursuant to Order 2004-3-18, Peninsula Airways, Inc. ("PenAir") hereby presents proposals to provide subsidized essential air service ("EAS") at Adak, Atka, and Nikolski, Alaska for a two-year period.

I. PenAir's Atka and Nikolski Proposals

PenAir is the current EAS subsidized service provider at Atka and Nikolski, Alaska. Peninsula has served Atka and Nikolski for many years and was last reselected to provide subsidized essential air service for a two-year period by Order 2002-4-12.

EAS for Atka requires a minimum of one round trip a week (allowing up to two intermediate stops) to either Adak, Dutch Harbor or Cold Bay utilizing small aircraft. PenAir proposes to continue to provide four weekly nonstop

Essential Air Service Proposals of Peninsula Airways, Inc.
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round trips between Atka and Dutch Harbor using either Piper T-1040 or Grumman Goose aircraft. The annual subsidy for PenAir's EAS service to Atka will be \$336,302.07. Exhibit 1.

EAS for Nikolski requires a minimum of one scheduled and one flag stop round-trip flight a week to either Dutch Harbor or Cold Bay with small aircraft (allowing up to two intermediate stops). Peninsula proposes to provide two weekly nonstop round-trips between Nikolski and Dutch Harbor with either Piper T-1040 or Grumman Goose aircraft. The annual subsidy cost for PenAir's EAS service to Nikolski will be \$173,601.81. Exhibit 1.

II. PenAir's Adak Proposal

PenAir proposes to provide EAS to Adak using PenAir's largest cabin-classed aircraft, the SAAB 340. PenAir will provide Adak with one-third more frequencies than the current service -- three weekly flights between Adak and Anchorage via Cold Bay with aircraft appropriately sized for the Adak marketplace. PenAir notes that if it is unable (e.g. due to weather) to operate on a scheduled day, PenAir has the flexibility to operate the flight on the next day. The annual subsidy for PenAir's service for Adak will be \$954,855. Exhibit 2

PenAir's SAAB 340 is highly suited to the longer stage length of the Anchorage-Cold Bay-Adak route, and offers passengers the comfort and

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convenience of a stand-up cabin, leather seating, full lavatory and flight attendant service.

PenAir's SAAB proposal will best serve the interests of both the community and the Department in providing reliable essential air service at a reasonable subsidy level. PenAir has had longstanding experience in providing essential air service to Adak. Following the demise of Reeve Aleutian Airways in 2000, PenAir was the only airline with the demonstrated interest and resources to step in immediately to provide Adak with essential air service on an emergency basis. During the period of time PenAir served Adak from Anchorage, it enjoyed a 99% schedule completion rate.

In the last proceeding, the Department selected Alaska Airlines' jet service proposal over the substantially less expensive SAAB proposal submitted by PenAir, but in making that selection the Department expressed concern about the high subsidy rate:

"The Department has traditionally given even greater weight to desires of Alaska communities, given the State's greater dependence on air service. Clearly, no community currently relying on subsidized air service is as isolated and dependent on air service as Adak. . . . However, given the very substantial level of subsidy required to support this service, if traffic does not respond or the level of subsidy support needed does not decline, we will review the issue towards the end of the one-year contract."

Given the current levels of passengers, mail and freight at Adak, PenAir believes that its proposal will best serve the needs of the market at reasonable cost to the U.S. government. The SAAB 340 can accommodate up to 30 passengers and 2,500 pounds of freight. PenAir believes that its more frequent service pattern will allow it to serve better the Adak market and support the island's industry with timely delivery of goods, parts and equipment. PenAir's aircraft is right-sized for the Adak marketplace and PenAir has already proven its capability to deliver reliable air transportation service at Adak and other Alaska EAS communities.

III. Carrier Selection Factors Favor PenAir

Under 49 U.S.C. § 41733(c)(1), the Department considers five factors in selecting a carrier to provide subsidized essential air service including: (1) service reliability; (2) contractual and marketing arrangements with a larger carrier at the hub; (3) interline arrangements with a larger carrier at the hub; (4) community views; and (5) the applicants' relative subsidy requirements.

PenAir excels in each of these categories. PenAir is among the largest and most reliable commuter airlines in the state of Alaska and has had decades of experience in providing subsidized essential air service to Alaska small communities, including experience at each of the communities at issue. In addition, PenAir has a marketing arrangement (interline and codeshare) with

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Alaska Airlines to/from PenAir's hub at Anchorage which offers seamless service to PenAir's customers to the national air transportation system via Alaska's route network. In addition, PenAir's subsidy proposals in this case represent highly cost-efficient essential air service appropriately sized to meet the needs of the communities on an economically efficient basis.

In conclusion, PenAir requests that the Department select it to be the subsidized essential air service carrier at Adak, Atka and Nikolski, Alaska for a two-year period.

Respectfully submitted,



Robert E. Cohn
Alexander Van der Bellen
SHAW PITTMAN LLP
2300 N Street, N.W.
Washington, D.C. 20037
(202) 663-8060

Counsel for
PENINSULA AIRWAYS, INC.

Exhibit 1

PenAir EAS Subsidy Proposals for Atka and Nikolski

	<u>ATKA</u>	<u>NIKOLSKI</u>
Aircraft: Piper T-1040 or Grumman G-2	4 r.t./wk	2 r.t./wk
Block hours	666 ¹	208 ²
Wtd departures	1,560 ³	780 ⁴

REVENUE

Passengers	\$118,382 ⁵	\$57,039 ⁶
Freight	8,373 ⁷	18,330 ⁸
Mail	213,111 ⁹	77,868 ¹⁰
Total Revenue	\$339,866	\$153,237

EXPENSES

Flying Ops @ \$162.75/hr	\$108,392	
Flying Ops @ \$420.59/hr		\$87,483
Fuel & Oil @ \$146.77/hr	97,749	
Fuel & Oil @ \$129.78/hr		26,994
Insurance @ \$128.55/hr	85,614	
Insurance @ \$211.02/hr		43,892
Maintenance @ \$274.63/hr	182,904	
Maintenance @ \$536.16/hr		111,521
Aircraft @ \$119.01/hr	79,261	
Aircraft @ \$135.89/hr		28,265
Direct Expense	\$553,920	\$269,890
Tfc related @ 7.77% of rev	\$26,407.59	\$11,906.51
Dep rel @ \$10.23/wtd dep	15,958.80	7,979.40
Capacity related @ 14.03% of rev	47,683.20	21,499.15
Indirect Expense	\$90,049.59	\$41,385.06
Total Operating Cost	\$643,969.59	\$311,275.06
Total Return @ 5%	32,198.48	15,563.75
Total Economic Cost	\$676,168.07	\$326,838.81
Annual Subsidy Need	\$336,302.07	\$173,601.81

Exhibit 1

- ¹ 8 flts/week x 1.6 hrs/flt x 52 weeks = 666 hrs.
- ² 4 flts/week x 1.0 hr/flt x 52 weeks = 208 hrs.
- ³ 8 flts/week x 3.75 wt/flt x 52 weeks = 1,560 wtd. deps.
- ⁴ 4 flts./week x 3.75 wt./flt. x 52 weeks = 780 wtd. deps.
- ⁵ 606 passengers x \$195.35 = \$118,382.
- ⁶ 584 passengers x \$97.67 = \$57,039.
- ⁷ 12,881 lbs. x \$0.65/lb - \$8,373.
- ⁸ 31,067 lbs. x \$0.59 = \$18,330.
- ⁹ 94,716 lbs. x \$2.25 = \$213,111.
- ¹⁰ 77,097 lbs. x \$1.01 - \$77,868.

PenAir EAS Subsidy Proposal for Adak, Alaska

Aircraft: SAAB 340 B	3 flts/wk
ANC-CBD-ADK-CDB-ANC	
Block hrs @ 9.8/trip	1,529
Wtd departures @ 14	8,736

REVENUE

Pax, ANC-ADK	2,200 @	\$461	\$1,014,200
ANC-CDB	800 @	\$315	252,000
Freight 220,000 lb @	1.20/lb		264,000
Mail, 200,000 lb @	3.05/lb		610,000
Total Revenue			<u>\$2,140,200</u>

EXPENSES

Flying Ops @	\$275.51/hr	\$421,255
Fuel & Oil @	\$200/hr	305,800
Other @	\$146/hr	223,234
Maintenance @	\$500.33/hr	765,005
Aircraft @	\$247/hr	377,663
Direct Expense		<u>\$2,092,957</u>

Tfc related @	11.49% rev	\$ 245,909
Dep rel @	\$38.87/wtd dep.	339,568
Capacity related @	12.58% rev	269,237
Indirect Expense		<u>\$ 854,714</u>

Total Operating Cost	\$2,947,671
Return @ 5%	147,384
Total Economic Cost	<u>\$3,095,055</u>

Annual Subsidy Need	\$ 954,855
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